

**Testimony of Scott Faber
Vice President for Federal Affairs
On Behalf of
The Grocery Manufacturers Association**

Before the Energy and Air Quality Subcommittee

Of the House Committee on Energy and Commerce

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“Renewable Fuels Standard: Issues, Implementation and Opportunities”

My name is Scott Faber and I am Vice President for Federal Affairs for the Grocery Manufacturers Association.

In light of dramatic increases in food prices and new questions about the environmental costs of fuels derived from food crops, we urge the Committee to revisit the food-to-fuel mandates included in the Energy Independence and Security Act of 2007.¹ Although there are many factors contributing to the sharp increase in US and global food prices – including increasing global food demand, export and other restrictions, adverse weather in some countries, commodity speculation, and higher energy prices – a significant new factor and the *only* factor affecting food and feed prices that is *under the control of Congress* is the food-to fuel mandates and subsidies diverting food into fuel production.

Food prices are now rising at twice the overall rate of inflation. According to the Bureau of Labor Statistics, domestic food prices rose by 4.9 percent during 2007 – the

¹ The Energy Independence and Security Act of 2007 increased the federal corn ethanol mandate from 5.4 billion gallons in 2008 to 9 billion gallons in 2008, 10.5 billion gallons in 2009, 12 billion gallons in 2010. In subsequent years, the mandate annually increases by 600 million gallons to 15 billion gallons in 2015. The Act also creates a 1 billion gallon bio-diesel mandate by 2012.

largest increase in 17 years. But, the domestic price of basic staples such as eggs, milk and meat have increased even more dramatically in the last three years. Egg prices have increased 69 percent, milk prices have increased 22 percent, and chicken prices have increased 12 percent.² The cost of feed grains and oilseed crops used to produce these animal products has increased at an alarming rate. Since the 2005 and 2006 crop years, farm-level corn prices have increased more than 150 percent, and farm-level soybean prices have increased more than 100 percent. Although other factors are affecting domestic food prices, growing demand for corn and soybeans has also contributed to tightening supplies of other major commodities, creating a ripple effect that has driven up the costs of food production.

Soaring food prices pose significant challenges for poorest 20 percent of Americans, who spend roughly one-third of their after-tax income on food. Soaring food prices have contributed to a rising demand at food banks and a record number of Americans seeking food stamps and . At a time when thousands of Americans are losing their homes and jobs, it makes no sense to artificially increase the price of food with policies that will divert food into our fuel supplies.

Rising food prices also pose significant challenges to the hungry in developing countries, where roughly 800 million³ people are hungry and consumers spend as much as 70 percent of their income on food. Rising commodity prices have pushed global food prices up 83 percent over the last three years⁴ -- and by 57 percent in the last year alone -- pushing millions of people into poverty. UN Secretary General Ban Ki-moon and World Bank President Robert Zoellick have both characterized rising food prices as “seven lost years in the fight against global poverty.” In combination, rising prices and declining commodity stocks have forced global food aid programs to ration food and have contributed to food riots and protests in more than 30 countries. Rising food inflation in the developing world is not merely a food security issue but is a national security issue.

² Consumer Price Index data, Bureau of Labor Statistics

³ C. Forde Runge and Benjamin Senauer. How Biofuels Could Starve the Poor. Foreign Affairs, May/June 2007.

⁴ Bob Davis and Douglas Belkin, Food Inflation, Riots Spark Worries for World Leaders, “Wall Street Journal, April 14, 2008. A1.

The World Bank warns that 33 nations are at risk of social unrest because of the rising price of food and energy.⁵

Rising feed prices pose significant challenges for livestock producers, which have contributed to the rising price of milk, meat and eggs. Although many crop farmers have benefited from high corn and soybean prices, many more livestock producers are facing unprecedented losses. Food-to-fuel mandates will increase the cost of livestock production by \$17.7 billion in 2008-2009⁶, and have already contributed to the loss of hundreds of jobs.

Food prices will continue to rise as more and more corn and soy oils are diverted to our fuel supplies. In particular, we estimate that food inflation will rise by 7 to 8 percent⁷ over the next few years, as up to 40 percent of our corn and 30 percent of our vegetable oils are diverted from our food supplies to our fuel supplies.⁸ The Producer Price Index for food has risen at an annualized rate of 10 percent over the past three months. Rising demand for basic commodities is also reducing fruit and vegetable production. Because stocks of basic commodities have fallen to low levels, a poor corn or soybean harvest in 2008 could result in even more dramatic increases in food prices. We are particularly concerned by reports that poor weather has delayed corn plantings in the Midwest.

Unfortunately, food-to-fuel mandates have little impact on energy import or prices. Diverting 25 percent of the US corn crop has displaced roughly 7 billion gallons of the nation's 140 billion gallon gasoline supply – or less than 4 percent of our gasoline supplies, when relative energy values are considered. Diverting 40 percent of our corn crop to produce 15 billion gallons of corn ethanol would replace less than 7 percent of our gasoline supplies, when relative energy values are considered.⁹ When the global petroleum market is considered, ethanol consumption in 2007 represented only 1 percent

⁵ "The World Food Crisis," *New York Times*, Editorial, April 10, 2008.

⁶ Elam, Thomas, "Biofuels Support Policy Costs to the U.S. Economy," *FarmEcon LLC*, March 24, 2008.

⁷ Lapp, Bill, "Back To The '70s? How Higher Commodity Prices Are Leading to the Return of Food Price Inflation," *Advanced Economic Solutions*, December 2007.

⁸ Derived from USDA and EIA data

⁹ derived from Energy Information Administration projections

of global oil consumption. In the United States, the Energy Information Administration reports that ethanol consumption accounted for only 2 percent of total US petroleum consumption. Ethanol's small share of petroleum markets, its significant transportation, blending, and storage costs, and its reduced energy content compared with gasoline reduce the likelihood that food-to-fuel mandates will affect gasoline prices and may even result in higher gasoline prices in some regions.

What's more, food-to-fuel mandates increase greenhouse gas emissions and pose other environmental challenges. Diverting food crops to our fuel supplies has artificially increased the price of commodities, accelerating the conversion of pasture and forest lands to crop production at home and around the globe. Current and expected conversion of pasture and forest lands will release carbon into the atmosphere and reduce the availability of carbon "sinks" that help sequester carbon. In addition, food-to-fuel mandates increase water and air pollution, compound water shortages, and contribute to the loss of habitat for wildlife. Increases in fertilizer use associated with expanded corn and soybean production will increase the amount of nitrogen and phosphorous being washed into rivers and bays, including the Chesapeake Bay, and will increase ground-level ozone at a time when more than 300 counties are struggling to meet Clean Air Act limits. Increasing the use of distillers grain – a byproduct of ethanol production that is fed to animals but has less nutritional value -- increases the amount of phosphorous reaching our waterways like the Chesapeake.

Congress should revisit food-to-fuel mandate schedules and subsidies and accelerate the development of other bio-fuels. High crude oil prices are providing sufficient market incentives to produce corn ethanol, making government intervention unwarranted. We believe Congress should revisit and reform food-to-fuel mandate schedules and subsidies to gradually reduce our reliance on food as an energy feedstock and to accelerate the development of bio-fuels that do not pit our energy needs against the needs of the hungry or the environment. In particular, we believe that Congress should accelerate the development of cellulosic ethanol derived from crop wastes, grasses and

other materials that do not increase food prices, hold significantly greater promise to displace traditional sources of gasoline, and could have less impact on the environment.

Congress should also take steps to address the needs of the hungry and to accelerate global agricultural development. At the same time that the number of hungry across the globe is increasing, donations to the world's hungry have fallen to the lowest level in 35 years.¹⁰ Congress should take steps to expand domestic and international hunger assistance programs to help address the impacts of food inflation at home and abroad, including emergency assistance that can be immediately used to make regional purchases of commodities. And, Congress should also provide new funds to increase the productivity and sustainability of agricultural lands in the developing world. Between 2003 and 2007, global usage of coarse grains like corn grew by 3.4 percent, compared with a long-run rise in yields of just 1.5 percent, according to USDA.

In conclusion, we urge the Committee to revisit the food-to-fuel mandates in light of dramatic increases in food prices and new questions about the environmental costs of fuels derived from food crops. Although there are many factors contributing to record food inflation – including increasing global demand, export restrictions, changing weather patterns, commodity speculation, and higher energy prices – a significant new factor and the *only* factor affecting food and feed prices that is *under the control of Congress* is food-to fuel mandates and subsidies diverting food into our fuel supplies.

¹⁰ Ryan, Missy, "Commodity Boom Eats into Aid for World's Hungry," *Reuters*, September 5, 2007.